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December 2, 2005

**VIA E-MAIL AND FEDERAL EXPRESS**

Ms. Sharla Dillon, Docket Room Manager  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243-0505

RE: TRA Docket No. 05-00313  
Responses of Appalachian Power Company to Data Request No. 1

Dear Ms. Dillon:

This letter contains Appalachian Power Company's (Appalachian) responses to the eight (8) questions posed in Ms. Colleen Edwards' November 23, 2005 letter to me (Data Request No. 1). Per Ms. Edwards' letter, Appalachian is filing the original and thirteen (13) copies of this letter with you. Before providing Appalachian's specific responses to Staff's Data Request No. 1, Appalachian would like to provide the context for its responses by describing the relationship between Appalachian and Kingsport Power Company (Kingsport).

Appalachian and Kingsport are separate legal entities that finance their operations separately. Kingsport is not owned by Appalachian; nor is Kingsport a subsidiary of Appalachian. Both Kingsport and Appalachian are, however, wholly-owned subsidiaries of American Electric Power Company, Inc. (AEP), a publicly traded holding company registered under the Public Utility Holding Company Act of 1935 (PUHCA). Kingsport purchases all of its power requirements from Appalachian at wholesale under a FERC-approved tariff and receives some services from Appalachian, at cost, pursuant to the rules of the Securities and Exchange Commission (SEC).

Kingsport owns assets in Tennessee that are used to provide service to its retail customers at rates regulated by the Tennessee Regulatory Commission (TRA). Kingsport's

most recent financing application was approved by the TRA by Order dated February 17, 2004, in Docket No. 03-00618.

Appalachian owns a small amount of transmission assets in Tennessee, which, along with its other assets, are currently pledged under its first mortgage bonds. Because Appalachian owns assets in Tennessee, Appalachian has traditionally requested and received approval from the TRA for refinancings and/or new financings. Appalachian received an order for its tax exempt financing (Case No. PUE-2005-00088) from the Virginia State Corporation Commission on November 3, 2005, which approved Appalachian's request for the tax exempt financing authority that is the subject of this proceeding. Appalachian filed its general annual financing application with the Virginia State Corporation Commission on November 14, 2005, and is awaiting final disposition of that matter. Together, those two applications are substantially identical to the application Appalachian has filed with the TRA.

The instant case involves an Appalachian financing application, not a Kingsport financing application. No additional assets of Appalachian in Tennessee will be pledged as collateral for any financings undertaken by Appalachian as a result of the TRA's approval of Appalachian's application in this case. More importantly, the TRA's approval of Appalachian's application will have no effect on the manner in which Kingsport is now or will be financed in the future.

Kingsport might be affected by Appalachian's financing activity to the extent that such financings affect future costs that are either charged to Kingsport (under current or post-PUHCA successor rules), for services Appalachian provides to Kingsport, or reflected in Appalachian's wholesale electric rates to Kingsport. However, approval of Appalachian's financing application by the TRA could also benefit Kingsport's retail customers, to the extent that Appalachian uses the proceeds from any such financings to maintain or expand property or facilities that are used to provide wholesale electric service or other services to Kingsport.

With this contextual explanation, Appalachian's responses to Staff Data Request No. 1 are as follows:

1. Has Appalachian Power Company ("Appalachian") filed similar petitions in other states and what is the status of any such petition?

**Response:**

Appalachian received an order for its tax exempt financing, Case No. PUE-2005-00088, with the Virginia State Corporation Commission on November 3, 2005. Appalachian filed its general annual financing application with the Virginia State Corporation Commission on November 14, 2005.

2. Has Appalachian applied for approval for financing from any Federal Agency? Have they notified any Federal Agency? If so, what is the status of any such application or notification?

**Response:**

Appalachian does not file for approval of the issuance of long-term debt with any Federal Agency. Approval to issue short-term debt has been received from the SEC under PUHCA File No. 70-10166. No other Federal approval has been sought or obtained.

3. How many end-user customers are served, directly or indirectly, by Appalachian, including customers of Kingsport Power Company ("Kingsport Power") d/b/a American Electric Power Company ("AEP") in Tennessee?

**Response:**

Appalachian directly serves no end-user customer in Tennessee. Appalachian does sell power to Kingsport Power, which serves approximately 45,000 end-user customers in Tennessee.

4. Will any Tennessee assets, (Kingsport Power Company) be pledged as collateral for any secured debt issued? If so, what percentage of Kingsport Power Company's assets will be pledged?

**Response:**

No assets owned by Kingsport will be pledged as collateral for any debt issued by Appalachian as a result of the TRA's approval of Appalachian's financing application for the period through December 31, 2006.

5. Will any of these funds be used for plant expansion, modernization, or otherwise used for the benefit of Kingsport ratepayers? Please itemize projects and approximate amounts projected. Include retirement of debt from the current Kingsport Power Company balance sheet as one of the benefits and/or other benefits such as reduced interest expense for Kingsport Power Company ratepayers.

**Response:**

No funds borrowed by Appalachian will be used for expansion or modernization of Kingsport plant or assets. However, as indicated above, improvements made by Appalachian would benefit Kingsport's retail customers. No retirement of Kingsport debt will occur as a result of the TRA's approval of Appalachian's application.

6. Provide the approximate value of Kingsport Power Company's long-term debt and what the restrictive amount that cannot be exceeded will be.

**Response:**

Kingsport's long-term debt was approximately \$20 million at September 30, 2005. Pursuant to the TRA's February 17, 2004 Order allowing Kingsport to incur up to \$10 million in new additional debt, the permitted amount of Kingsport's long-term debt is currently \$30 million. A TRA Order approving Appalachian's application in this case will not change this \$30 million amount or Kingsport's capital structure.

7. Estimate what Kingsport Power Company's new long-term/short-term interest expense will be compared with its current long-term/short-term interest expense.

**Response:**

TRA approval of Appalachian's financing request will not change Kingsport's long-term debt cost. Kingsport's short-term debt cost will fluctuate according to its outstanding short-term debt balance and current short-term interest rates, but not as a result of the TRA's approval of Appalachian's application.


8. Provide estimated Income Statement with the new interest expense included and estimated increase in revenues at December 31, 2006.

**Response:**

There will be no new interest expense to Kingsport as a result of the TRA's approval of Appalachian's financing application.

If you have any questions, please do not hesitate to contact the writer.

Sincerely,

  
William C. Bovender  
Counsel for Appalachian Power Company

cc: Mr. Carlos Black (via facsimile)  
William E. Johnson, Esq. (via e-mail)  
James R. Bacha, Esq. (via e-mail)  
Thomas L. Stephens (via e-mail)